

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS ATHENS 002470

SIPDIS

E.O. 12958: N/A

TAGS: [FAIR](#) [ECON](#) [GR](#) [OLYAIR](#)

SUBJECT: GREEK GOVERNMENT UNDECIDED ON FUTURE OF OLYMPIC
AIRLINES FOLLOWING EUROPEAN COMMISSION'S DECISION ON ILLEGAL
STATE AID

REF: (A) ATHENS 2114; (B) ATHENS 1372

SUMMARY

1. (U) A European Commission decision ordering Olympic Airlines to pay back some 500 million euros in illegal state aid, although widely expected by industry observers, appears to have taken the Greek government by surprise. The decision, which came in the midst of a final Greek government effort to sell the struggling airline, has set the Greek government moving in three directions: to appeal the decision to the European Court, to determine the intentions of potential investors, and to manage the domestic political fall-out. An inter-ministerial committee chaired by the Prime Minister will convene on September 20 to work out next-steps on the ailing air carrier. End Summary.

2. (U) Despite early warnings, the GoG appeared unprepared for the European Commission's decision to require Olympic Airlines to return nearly 500 million euros in illegal state aid obtained from 2002 to present; as well as reaffirming that the GoG must recover an earlier 160 million euros in illegal subsidies from the period 1998 to 2002.

3. (U) This EC decision comes after a European Court ruled in May that GoG transfers of 160 million euros from 1998 to 2002 comprised an illegal subsidy. The new EC decision adds an additional 500 million euro in repayment based on state-aid for leasing aircraft, failure to pay tax and social security liabilities, and other indirect assistance OA has received. The EC decision also clearly states that the 2003 split of Olympic Airways and Airlines does not affect the repayment of the subsidies, and specifies that Olympic Airlines (the flight operations unit) is the inheritor of the obligation.

4. (U) Following the announcement of the Commission's decision, the government started a marathon of inter-ministerial meetings to culminate in a meeting chaired by the Prime Minister on September 20 to decide on further action. Government Ministers have tried to ease the reaction of the airline's employees on one hand, and to determine the intentions of potential buyers on the other. The Commission's decision, which came in the midst of a last Greek government effort to sell the struggling airline, calls into question the viability of privatization deal the GoG had struck with Olympic Investors. (ref A)

5. (U) Nevertheless, the GoG has announced that it will push ahead with attempts to sell the airline, even if this requires beginning negotiations anew. According to Transport Minister Liapis, the government will exhaust all options available to keep Olympic Airlines alive, including appealing against the Commission's decision in the ECJ. Also, PM Karamanlis has announced that no Olympic employees will lose their jobs as a result of the EC decision.

6. (SBU) Comment: It is clear that the GoG was caught unprepared by the EC ruling, and had no contingency plan in place. Although Minister of Finance Alogoskoufis had earlier told Embassy that the EC would do nothing to "jeopardize" Olympic's privatization, this does not appear to have been the case. Embassy has been in contact with Olympic Investors Group, which maintains that all is not lost on the deal, and is sending representatives to Greece later this week to explore options with us. End comment.

RIES